

Dave Yost • Auditor of State

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Mount Vernon City School District
Knox County
300 Newark Road
Mount Vernon, Ohio 43050

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2012, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The federal awards receipts and expenditures schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Dave Yost
Auditor of State

January 22, 2013

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of the Mount Vernon City School District's (the "District") financial performance provides an overall review of the District's cash basis financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- At June 30, 2011, the District restated net cash assets as described in Note 3.B to the basic financial statements. In total, net cash assets of governmental activities decreased \$2,497,889, which represents a 30.31% decrease from fiscal year 2011.
- General cash receipts accounted for \$28,481,106 in cash receipts or 78.13% of all cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for \$7,971,667 or 21.87% of total cash receipts of \$36,452,773.
- The District had \$38,950,662 in cash disbursements related to governmental activities; \$7,971,667 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$28,481,106 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund and permanent improvement fund. The District restated fund cash balances at June 30, 2011 as described in Note 3.B to the basic financial statements. The general fund had \$30,567,597 in cash receipts and other financing sources and \$31,243,894 in cash disbursements and other financing uses. During fiscal year 2012, the general fund's fund cash balance decreased \$676,297 from \$3,086,877 to \$2,410,580.
- The bond retirement fund had \$466,288 in cash receipts and other financing sources and \$821,904 in cash disbursements. During fiscal year 2012, the bond retirement fund's fund cash balance decreased \$355,616 from \$2,037,696 to \$1,682,080.
- The permanent improvement fund had \$1,005,170 in cash receipts and \$1,349,917 in cash disbursements. During fiscal year 2012, the permanent improvement fund's fund cash balance decreased \$344,747 from \$1,181,550 to \$836,803.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net assets – cash basis and statement of activities – cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, bond retirement fund and permanent improvement fund are all reported as major funds.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets – cash basis and the statement of activities – cash basis answer the question, “How did the District do financially during fiscal year 2012?” These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

These two statements report the District’s net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets – cash basis and statement of activities – cash basis, the governmental activities include the District’s programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District’s statement of net assets – cash basis and statement of activities – cash basis can be found on pages 14-15 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 10. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’ most significant funds. The District’s major governmental funds are the general fund, bond retirement fund and permanent improvement fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net assets – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Proprietary Funds

The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 21-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets – cash basis and changes in fiduciary net assets – cash basis on pages 23-24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

The District as a Whole

The table below provides a summary of the District's net cash assets at June 30, 2012 and June 30, 2011, as restated in Note 3.B to the basic financial statements.

	Net Cash Assets	
	Governmental Activities 2012	Restated Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets	\$ 5,744,252	\$ 8,242,141
<u>Net Cash Assets</u>		
Restricted	2,961,861	4,478,496
Unrestricted	<u>2,782,391</u>	<u>3,763,645</u>
Total net cash assets	<u>\$ 5,744,252</u>	<u>\$ 8,242,141</u>

Total net cash assets of the District decreased \$2,497,889, which represents a 30.31% decrease from restated net cash assets at June 30, 2011. The decrease in net cash assets during fiscal year 2012 was mainly due to cash disbursements significantly outpacing cash receipts in the general fund, bond retirement fund, permanent improvement fund and self-insurance internal service fund. A portion of the District's net cash assets, \$2,961,861, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash assets of \$2,782,391 may be used to meet the District's ongoing obligations to the students and creditors.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table below shows the change in net cash assets for fiscal years 2012 and 2011, as restated in Note 3.B to the basic financial statements.

Change in Net Cash Assets

	Governmental Activities <u>2012</u>	Restated Governmental Activities <u>2011</u>
<u>Cash receipts:</u>		
Program cash receipts:		
Charges for services and sales	\$ 2,323,064	\$ 2,248,865
Operating grants and contributions	5,648,603	6,397,958
General cash receipts:		
Property taxes	13,622,943	13,767,402
Payments in lieu of taxes	407,908	413,527
Grants and entitlements	14,152,942	14,485,434
Investment earnings	9,823	20,933
Other	<u>287,490</u>	<u>36,704</u>
Total cash receipts	<u>36,452,773</u>	<u>37,370,823</u>

-Continued

During fiscal year 2012, other cash receipts increased \$250,786 or 683.27% primarily due to receipts related to the District's "pay to participate" programs that were initiated during the 2011-2012 school year. Other cash receipts also increased due to increasing public school support donations and rebate receipts from American Electric Power (AEP) during fiscal year 2012.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Change in Net Cash Assets (Continued)

	Governmental Activities <u>2012</u>	Restated Governmental Activities <u>2011</u>
<u>Cash disbursements:</u>		
Current:		
Instruction:		
Regular	\$ 18,036,427	\$ 17,231,119
Special	3,858,437	4,088,801
Vocational	373,025	362,329
Support services:		
Pupil	1,878,194	2,004,448
Instructional staff	2,347,021	2,422,029
Board of education	59,012	66,729
Administration	3,899,819	2,750,112
Fiscal	824,392	2,699,189
Business	57,312	63,531
Operations and maintenance	2,998,881	2,962,300
Pupil transportation	1,275,032	1,548,193
Central	124,559	129,537
Operation of non-instructional services:		
Other non-instructional services	186,470	200,126
Food service operations	1,363,542	1,304,364
Extracurricular activities	639,405	683,744
Facilities acquisition and construction	198,950	532,448
Debt service:		
Principal retirement	601,351	572,341
Interest and fiscal charges	<u>228,833</u>	<u>248,818</u>
Total cash disbursements	<u>38,950,662</u>	<u>39,870,158</u>
Change in net cash assets	(2,497,889)	(2,499,335)
Net cash assets at beginning of year (restated)	<u>8,242,141</u>	<u>10,741,476</u>
Net cash assets at end of year	<u>\$ 5,744,252</u>	<u>\$ 8,242,141</u>

During fiscal year 2012, administration cash disbursements increased \$1,149,707 or 41.81% and fiscal cash disbursements decreased \$1,874,797 or 69.46%. These changes are primarily due to the recording of \$1,476,901 in Educational Service Center (ESC) State foundation reductions as administration cash disbursements in fiscal year 2012 versus the District recording these reductions as fiscal cash disbursements in fiscal year 2011.

Governmental Activities

Net cash assets of the District's governmental activities decreased \$2,497,889. Total governmental cash disbursements of \$38,950,662 were offset by program cash receipts of \$7,971,667 and general cash receipts of \$28,481,106. Program cash receipts supported 20.47% of the total governmental cash disbursements.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

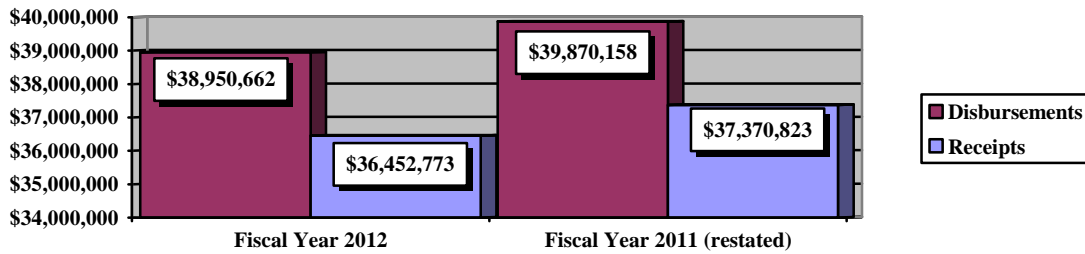
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The primary sources of cash receipts for governmental activities are derived from property taxes and grants and entitlements. These cash receipt sources represent 76.20% of total governmental cash receipts.

The largest cash disbursement category of the District is for instructional programs. Instruction cash disbursements totaled \$22,267,889 or 57.17% of total governmental cash disbursements for fiscal year 2012.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2012 and 2011, as restated in Note 3.B to the basic financial statements.

Governmental Activities - Cash Receipts and Cash Disbursements



**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The statement of activities – cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2012 and 2011, as restated in Note 3.B to the basic financial statements. That is, it identifies the cost of these services supported by tax receipts and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Restated Total Cost of Services 2011	Restated Net Cost of Services 2011
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Cash disbursements:				
Instruction:				
Regular	\$ 18,036,427	\$ 16,079,656	\$ 17,231,119	\$ 15,397,960
Special	3,858,437	777,453	4,088,801	1,231,969
Vocational	373,025	321,301	362,329	310,605
Support services:				
Pupil	1,878,194	1,635,167	2,004,448	1,508,204
Instructional staff	2,347,021	1,642,041	2,422,029	1,806,867
Board of education	59,012	59,012	66,729	66,729
Administration	3,899,819	3,832,445	2,750,112	2,538,911
Fiscal	824,392	816,512	2,699,189	2,685,175
Business	57,312	57,312	63,531	60,840
Operations and maintenance	2,998,881	2,965,490	2,962,300	2,189,844
Pupil transportation	1,275,032	1,188,591	1,548,193	1,409,512
Central	124,559	124,559	129,537	98,883
Operation of non-instructional services:				
Other non-instructional services	186,470	(20,569)	200,126	(10,578)
Food service operations	1,363,542	2,709	1,304,364	27,284
Extracurricular activities	639,405	468,182	683,744	547,523
Facilities acquisition and construction	198,950	198,950	532,448	532,448
Debt service:				
Principal retirement	601,351	601,351	572,341	572,341
Interest and fiscal charges	228,833	228,833	248,818	248,818
Total	<u>\$ 38,950,662</u>	<u>\$ 30,978,995</u>	<u>\$ 39,870,158</u>	<u>\$ 31,223,335</u>

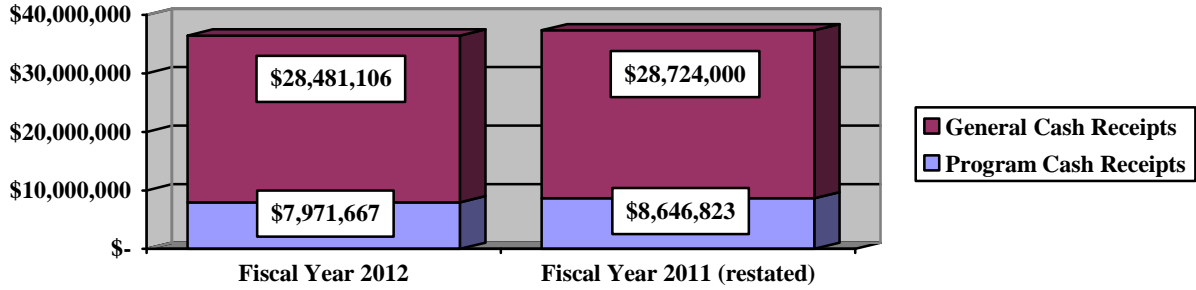
The dependence upon tax and other general cash receipts for governmental activities is apparent, 77.14% of instructional activities are supported through taxes and other general cash receipts. For all governmental activities, general cash receipt support is 79.53%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for the District's students.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The graph below presents the District's governmental activities cash receipts for fiscal years 2012 and 2011, as restated in Note 3.B to the basic financial statements.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$5,277,785, which is lower than last year's total restated fund cash balance of \$6,826,793 (as described in Note 3.B). The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2012 and June 30, 2011.

	Fund Cash Balance <u>June 30, 2012</u>	Restated Fund Cash Balance <u>June 30, 2011</u>	<u>Decrease</u>	<u>Percentage Change</u>
General	\$ 2,410,580	\$ 3,086,877	\$ (676,297)	(21.91) %
Bond retirement	1,682,080	2,037,696	(355,616)	(17.45) %
Permanent improvement	836,803	1,181,550	(344,747)	(29.18) %
Other governmental	<u>348,322</u>	<u>520,670</u>	<u>(172,348)</u>	(33.10) %
Total	<u>\$ 5,277,785</u>	<u>\$ 6,826,793</u>	<u>\$ (1,549,008)</u>	(22.69) %

General Fund

The District's general fund cash balance decreased \$676,297.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table that follows assists in illustrating the financial activities and fund cash balance of the general fund, as restated in Note 3.B to the basic financial statements.

	2012 <u>Amount</u>	Restated 2011 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Cash receipts</u>				
Taxes	\$ 12,465,230	\$ 12,598,054	\$ (132,824)	(1.05) %
Tuition and transportation fees	1,495,575	1,478,480	17,095	1.16 %
Earnings on investments	6,955	15,753	(8,798)	(55.85) %
Intergovernmental	15,300,297	15,416,071	(115,774)	(0.75) %
Payments in lieu of taxes	407,908	413,527	(5,619)	(1.36) %
Other receipts	<u>484,834</u>	<u>182,399</u>	<u>302,435</u>	165.81 %
Total	<u>\$ 30,160,799</u>	<u>\$ 30,104,284</u>	<u>\$ 56,515</u>	0.19 %
<u>Cash disbursements</u>				
Instruction	\$ 19,265,567	\$ 19,416,411	\$ (150,844)	(0.78) %
Support services	11,385,246	11,513,885	(128,639)	(1.12) %
Extracurricular activities	483,991	535,876	(51,885)	(9.68) %
Debt service	<u>16,790</u>	<u>15,414</u>	<u>1,376</u>	8.93 %
Total	<u>\$ 31,151,594</u>	<u>\$ 31,481,586</u>	<u>\$ (329,992)</u>	(1.05) %

Overall cash receipts increased \$56,515 or 0.19% during fiscal year 2012. Earnings on investments decreased \$8,798 or 55.85% due to continuingly declining interest rates. Cash receipts related to other receipts increased \$302,435 or 165.81% primarily due to receipts from the District's "pay to participate" programs that were initiated during the 2011-2012 school year. These cash receipts also increased due to increasing public school support donations and rebate receipts from American Electric Power (AEP) during fiscal year 2012.

Overall cash disbursements decreased \$329,992 or 1.05% during fiscal year 2012. The decrease in cash disbursements for extracurricular activities of \$51,885 or 9.68% is a result of the District making moderate cuts in after school program spending. All other classifications of cash disbursements remained comparable to fiscal year 2011 amounts.

Bond Retirement Fund

The bond retirement fund had \$466,288 in cash receipts and other financing sources and \$821,904 in cash disbursements. During fiscal year 2012, the bond retirement fund's fund cash balance decreased \$355,616 from \$2,037,696 to \$1,682,080.

Permanent Improvement Fund

The permanent improvement fund had \$1,005,170 in cash receipts and \$1,349,917 in cash disbursements. During fiscal year 2012, the permanent improvement fund's fund cash balance decreased \$344,747 from \$1,181,550 to \$836,803.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, final budgetary basis receipts and other financing sources of \$30,705,104 were \$180,407 less than original budget estimates of \$30,885,511. The actual budgetary basis receipts and other financing sources of \$30,368,336 were less than final budget estimates by \$336,768. The final budgetary basis disbursements and other financing uses of \$30,824,117 were \$1,120,000 more than original budget estimates of \$29,704,117. The actual budgetary basis disbursements and other financing uses of \$31,131,950 were \$307,833 more than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements. The District had facilities acquisition and construction cash disbursements of \$198,950 during fiscal year 2012.

Debt Administration

At June 30, 2012, the District had \$4,960,000 in series 2005 current interest bonds, \$255,000 in capital appreciation bonds, \$256,336 in accreted interest, \$468,126 in energy conservation loans and \$32,793 in capital lease obligations. Of this total, \$664,669 is due within one year and \$5,307,586 is due in more than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, Year End	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
Refunding bonds - series 2005		
Current interest bonds	\$ 4,960,000	\$ 5,470,000
Capital appreciation bonds	255,000	255,000
Accreted interest	256,336	209,810
Energy conservation loan - 2008	468,126	545,905
Capital leases	<u>32,793</u>	<u>46,365</u>
Total	<u>\$ 5,972,255</u>	<u>\$ 6,527,080</u>

At June 30, 2012, the District's overall legal debt margin was \$44,164,192 and an unvoted debt margin of \$529,968. See Note 8 to the basic financial statements for detail on the District's debt administration.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Current Financial Related Activities

The District, like many districts in Ohio, is facing a very serious financial situation in 2012-2013. Over the past two years substantial changes have been made to the District's budget, including cuts in salaries and transportation costs, as well as additional income from parents' paying a fee for activities.

For fiscal year 2012, all salaries and step increases, including advancement for additional training for teachers, were frozen at fiscal year 2011 levels. Bussing for High School students was eliminated. Some of the costs of co-curricular activities for District students have been picked up by the parents of the students who participate. In fiscal year 2012, pay-to-participate fees helped the bottom line at year end by over \$150,000.

The District's Five Year Financial Forecast for the coming year indicates that the District will not finish fiscal year 2013 with enough cash available to fund the first payroll of the new fiscal year. The Board of Education has voted to place a 4.72 mill (\$2,500,000) Emergency Levy on the November 6, 2012 ballot. If this levy does not pass, the Board and Administration will have no choice but to make even further dramatic cuts to the District's operating costs.

The District's voters will be making a critical decision on the long-term future of the Mount Vernon City Schools when they vote in November. The District is hopeful that once the voters are presented with the information that shows that cuts have been made and that further cuts will make very drastic changes to the operation of the District, they will support the November levy. Once those additional funds are approved by the voters, the District vows to continue to watch every dollar spent, and only use the taxpayers' hard earned money in the very best interest of the District's students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Judy Stahl-Reynolds, Treasurer/CFO, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,744,252
 Total assets.	 5,744,252
 Net cash assets:	
Restricted for:	
Capital projects	951,790
Debt service.	1,682,080
Locally funded programs	3
State funded programs.	80,905
Federally funded programs	34
Student activities	70,426
Other purposes	176,623
Unrestricted	2,782,391
 Total net cash assets	 \$ 5,744,252

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Total
Governmental activities:				
Instruction:				
Regular	\$ 18,036,427	\$ 1,568,550	\$ 388,221	\$ (16,079,656)
Special	3,858,437	62,051	3,018,933	(777,453)
Vocational	373,025	-	51,724	(321,301)
Support services:				
Pupil	1,878,194	52,067	190,960	(1,635,167)
Instructional staff	2,347,021	-	704,980	(1,642,041)
Board of education	59,012	-	-	(59,012)
Administration	3,899,819	-	67,374	(3,832,445)
Fiscal	824,392	-	7,880	(816,512)
Business	57,312	-	-	(57,312)
Operations and maintenance	2,998,881	18,991	14,400	(2,965,490)
Pupil transportation	1,275,032	1,165	85,276	(1,188,591)
Central	124,559	-	-	(124,559)
Operation of non-instructional services:				
Other non-instructional services	186,470	-	207,039	20,569
Food service operations	1,363,542	460,293	900,540	(2,709)
Extracurricular activities	639,405	159,947	11,276	(468,182)
Facilities acquisition and construction	198,950	-	-	(198,950)
Debt service:				
Principal retirement	601,351	-	-	(601,351)
Interest and fiscal charges	228,833	-	-	(228,833)
Total governmental activities	\$ 38,950,662	\$ 2,323,064	\$ 5,648,603	(30,978,995)

General Cash Receipts:

Property taxes levied for:	
General purposes	12,465,230
Debt service	349,846
Capital projects	807,867
Payments in lieu of taxes	407,908
Grants and entitlements not restricted	
to specific programs	14,152,942
Earnings on investments	9,823
Miscellaneous	287,490
Total general cash receipts	28,481,106
Change in net cash assets	(2,497,889)
Net cash assets at beginning of year (restated)	8,242,141
Net cash assets at end of year	\$ 5,744,252

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 2,410,580	\$ 1,682,080	\$ 836,803	\$ 348,322	\$ 5,277,785
Total assets	<u>\$ 2,410,580</u>	<u>\$ 1,682,080</u>	<u>\$ 836,803</u>	<u>\$ 348,322</u>	<u>\$ 5,277,785</u>
Fund cash balances:					
Restricted:					
Debt service	\$ -	\$ 1,682,080	\$ -	\$ -	\$ 1,682,080
Capital improvements	-	-	836,803	114,987	951,790
Food service operations	-	-	-	176,623	176,623
Non-public schools	-	-	-	80,905	80,905
Extracurricular.	-	-	-	70,426	70,426
Other purposes.	-	-	-	37	37
Committed:					
Other purposes.	-	-	-	4,310	4,310
Assigned:					
Student instruction	2,760	-	-	-	2,760
Student and staff support.	113,878	-	-	-	113,878
School supplies.	47,411	-	-	-	47,411
Extracurricular.	4,750	-	-	-	4,750
Pay to participate fees.	157,346	-	-	-	157,346
Unassigned (deficit)	2,084,435	-	-	(98,966)	1,985,469
Total fund cash balances	<u>\$ 2,410,580</u>	<u>\$ 1,682,080</u>	<u>\$ 836,803</u>	<u>\$ 348,322</u>	<u>\$ 5,277,785</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2012

Total governmental fund cash balances	\$ 5,277,785
<i>Amounts reported for governmental activities on the statement of net assets - cash basis are different because:</i>	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net assets - cash basis.	<u>466,467</u>
Net assets - cash basis of governmental activities	<u><u>\$ 5,744,252</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Cash receipts:					
From local sources:					
Taxes	\$ 12,465,230	\$ 349,846	\$ 807,867	\$ -	\$ 13,622,943
Tuition.	1,494,991	-	-	-	1,494,991
Transportation fees.	584	-	-	-	584
Charges for services	-	-	-	460,293	460,293
Earnings on investments	6,955	-	344	290	7,589
Extracurricular.	69,386	-	-	169,450	238,836
Classroom materials and fees	108,967	-	-	-	108,967
Rental income	18,991	-	-	-	18,991
Contributions and donations	36,445	-	-	66,896	103,341
Other local receipts	251,045	-	-	402	251,447
Payments in lieu of taxes	407,908	-	-	-	407,908
Intergovernmental - state	15,298,717	24,142	196,959	955,914	16,475,732
Intergovernmental - federal	1,580	-	-	3,257,047	3,258,627
Total cash receipts	30,160,799	373,988	1,005,170	4,910,292	36,450,249
Cash disbursements:					
Current:					
Instruction:					
Regular.	16,767,323	-	429,663	394,836	17,591,822
Special	2,135,271	-	-	1,620,894	3,756,165
Vocational	362,973	-	-	-	362,973
Support services:					
Pupil	1,638,201	-	-	187,398	1,825,599
Instructional staff	998,630	-	587,705	691,127	2,277,462
Board of education	59,012	-	-	-	59,012
Administration	3,759,963	-	-	64,929	3,824,892
Fiscal	762,791	8,510	33,276	7,951	812,528
Business.	53,902	-	-	-	53,902
Operations and maintenance	2,919,589	-	540	14,400	2,934,529
Pupil transportation	1,068,719	-	109,283	34,020	1,212,022
Central	124,439	-	-	120	124,559
Operation of non-instructional services:					
Other non-instructional services	-	-	-	186,470	186,470
Food service operations.	-	-	-	1,308,783	1,308,783
Extracurricular activities	483,991	-	-	155,414	639,405
Facilities acquisition and construction.	-	-	189,450	9,500	198,950
Debt service:					
Principal retirement.	13,572	587,779	-	-	601,351
Interest and fiscal charges	3,218	225,615	-	-	228,833
Total cash disbursements.	31,151,594	821,904	1,349,917	4,675,842	37,999,257
Excess (deficiency) of cash receipts over (under) cash disbursements	(990,795)	(447,916)	(344,747)	234,450	(1,549,008)
Other financing sources (uses):					
Transfers in.	137,193	92,300	-	-	229,493
Transfers (out)	(92,300)	-	-	(137,193)	(229,493)
Advances in	269,605	-	-	-	269,605
Advances (out)	-	-	-	(269,605)	(269,605)
Total other financing sources (uses)	314,498	92,300	-	(406,798)	-
Net change in fund cash balances	(676,297)	(355,616)	(344,747)	(172,348)	(1,549,008)
Fund cash balances at beginning of year (restated).	3,086,877	2,037,696	1,181,550	520,670	6,826,793
Fund cash balances at end of year	\$ 2,410,580	\$ 1,682,080	\$ 836,803	\$ 348,322	\$ 5,277,785

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - cash basis - total governmental funds	\$ (1,549,008)
<i>Amounts reported for governmental activities in the statement of activities - cash basis are different because:</i>	
An internal service fund for self-insurance is not reported in the district- wide statement of activities - cash basis. Governmental fund cash disbursements and the related internal service fund cash receipts are eliminated. The net cash receipts (cash disbursements) of the internal service fund is allocated among the governmental activities.	<u>(948,881)</u>
Change in net cash assets of governmental activities	<u>\$ (2,497,889)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Taxes	\$ 12,677,514	\$ 12,603,463	\$ 12,465,230	\$ (138,233)
Tuition.	1,503,426	1,494,644	1,478,251	(16,393)
Transportation fees.	594	590	584	(6)
Earnings on investments	7,073	7,032	6,955	(77)
Rental income	19,314	19,202	18,991	(211)
Contributions and donations	6,733	6,693	6,620	(73)
Other local receipts	243,713	242,289	239,632	(2,657)
Payments in lieu of taxes	414,855	412,431	407,908	(4,523)
Intergovernmental - state	15,559,255	15,468,371	15,298,717	(169,654)
Intergovernmental - federal	1,607	1,598	1,580	(18)
Total budgetary basis receipts.	<u>30,434,084</u>	<u>30,256,313</u>	<u>29,924,468</u>	<u>(331,845)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	14,502,139	16,147,407	16,648,246	(500,839)
Special.	2,269,471	2,095,524	2,135,371	(39,847)
Vocational.	324,462	339,970	363,197	(23,227)
Support services:				
Pupil.	1,295,006	1,553,272	1,603,603	(50,331)
Instructional staff	1,542,946	1,097,637	1,029,572	68,065
Board of education	83,419	76,854	59,012	17,842
Administration.	2,523,934	3,584,966	3,766,570	(181,604)
Fiscal	2,208,512	970,978	770,706	200,272
Business	61,994	50,457	53,902	(3,445)
Operations and maintenance.	3,064,173	2,927,478	2,920,399	7,079
Pupil transportation	1,142,878	1,243,115	1,075,892	167,223
Central.	141,292	134,221	124,439	9,782
Extracurricular activities.	543,891	509,938	488,741	21,197
Total budgetary basis disbursements	<u>29,704,117</u>	<u>30,731,817</u>	<u>31,039,650</u>	<u>(307,833)</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>729,967</u>	<u>(475,504)</u>	<u>(1,115,182)</u>	<u>(639,678)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	37,561	37,342	36,932	(410)
Transfers in	137,039	136,238	134,744	(1,494)
Transfers (out).	-	(92,300)	(92,300)	-
Advances in.	274,196	272,595	269,605	(2,990)
Sale of assets	2,631	2,616	2,587	(29)
Total other financing sources (uses)	<u>451,427</u>	<u>356,491</u>	<u>351,568</u>	<u>(4,923)</u>
Net change in fund cash balance.	1,181,394	(119,013)	(763,614)	(644,601)
Fund cash balance at beginning of year	2,722,378	2,722,378	2,722,378	-
Prior year encumbrances appropriated	283,017	283,017	283,017	-
Fund cash balance at end of year.	<u>\$ 4,186,789</u>	<u>\$ 2,886,382</u>	<u>\$ 2,241,781</u>	<u>\$ (644,601)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 466,467
Total assets.	466,467
Net cash assets:	
Unrestricted.	466,467
Total net cash assets	\$ 466,467

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET ASSETS - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Charges for services	\$ 3,714,330
Total operating cash receipts	<u>3,714,330</u>
Operating cash disbursements:	
Fringe benefits	396,976
Claims	4,263,887
Materials and supplies	<u>4,872</u>
Total operating cash disbursements.	<u>4,665,735</u>
Operating loss	<u>(951,405)</u>
Nonoperating cash receipts:	
Earnings on investments	<u>2,524</u>
Total nonoperating cash receipts	<u>2,524</u>
Change in net cash assets.	(948,881)
Net cash assets at beginning of year (restated)	<u>1,415,348</u>
Net cash assets at end of year	<u>\$ 466,467</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,800	\$ 40,868
Total assets.	<u>2,800</u>	<u>40,868</u>
Net cash assets:		
Held in trust for scholarships	2,800	-
Held for student activities.	<u>-</u>	<u>40,868</u>
Total net cash assets	<u>\$ 2,800</u>	<u>\$ 40,868</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 8
Total additions	8
Change in net cash assets.	8
Net cash assets at beginning of year	2,792
Net cash assets at end of year	\$ 2,800

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mount Vernon City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in the 1870's through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike and Pleasant Townships. The District is staffed by 142 non-certified employees and 291 certified full-time teaching personnel who provide services to 4,140 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the District's accounting policies.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

Parochial Schools

Within the District boundaries, St. Vincent De Paul Elementary is operated through the Columbus Catholic Diocese; Christian Star Academy Elementary is operated as a private school; and Mount Vernon Academy High School and Mount Vernon Seventh-Day Adventist Elementary School are operated through the Seventh-Day Adventist Church. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity of these State monies by the District is reflected in a special revenue fund for financial reporting purposes.

JOINTLY GOVERNED ORGANIZATIONS

Licking Area Computer Association

The Licking Area Computer Association (LACA) is one of 23 Information Technology Centers in the State of Ohio that make up the Ohio Education Computer Network (OECN). LACA was founded in 1982, and is a non-profit organization, owned and governed by the schools it serves. LACA provides a variety of computer services to its member K-12 districts, including accounting, payroll, student grading, student scheduling, electronic grade books, professional development, Internet, Local Area Network support, library automation, and EMIS reporting to the Ohio Department of Education. The District paid LACA \$139,167 for services in fiscal year 2012. Financial information can be obtained from Sandy Mercer, who serves as Executive Director, at 195 Union Street, Suite C-2, Newark, Ohio 43055.

Knox County Career Center

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Knox County Career Center, Tracey Elliott, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in the SchoolComp Group Retrospective Rating Program (Group Retro). The Group Retro is offered by the Ohio Bureau of Workers' Compensation and is administered by CompManagement, Inc. The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount with refunds at the end of predetermined evaluation periods. See Note 10 for more information on Group Retro.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund cash balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Permanent improvement fund - The permanent improvement fund is used to account for financial resources that are restricted to disbursements for the acquisition or construction of capital facilities and other capital assets.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's only internal service fund is used to account for self-insurance programs.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash assets and changes in net cash assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has one agency fund. The District's agency fund accounts for student activities.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of receipts and disbursements.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All assets and net cash assets associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting

Although Ohio Administrative Code § 117-2-03(B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Knox County Budget Commission for rate determination.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources:

By March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for the general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2012 amounted to \$6,955, which includes \$3,533 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Interfund Balances

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the governmental activities column on the statement of net assets.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

Bonds, loans, capital leases and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal and interest payments.

M. Fund Cash Balance

Fund cash balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact.

Restricted - Fund cash balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund cash balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund cash balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unassigned - Unassigned fund cash balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund cash balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund cash balance is available. Similarly, within unrestricted fund cash balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund cash balance classifications could be used.

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted assets at June 30, 2012.

O. Net Cash Assets

Net cash assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net cash assets restricted for other purposes include amounts restricted for food service operations. The District did not have any net cash assets restricted by enabling legislation at June 30, 2012.

P. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in the proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Change in Basis of Accounting and Restatement of Prior Year Fund Balances and Net Assets

Ohio Administrative Code, Section 117-2-03(B), requires that the District prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year ending June 30, 2012, the District changed from a basis of accounting that follows generally accepted accounting principles (GAAP-basis) to the cash basis of accounting (See Note 2.D), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The District has elected to present the cash basis financial statements in a format consistent with GASB Statement No. 34. Fund balances and net assets at June 30, 2011 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals and long-term assets and liabilities.

The transition from a GAAP-basis to the cash basis of accounting had the following effect on fund balances at June 30, 2011:

	Governmental Funds					Proprietary Fund
	General	Bond Retirement	Permanent Improvement	Nonmajor Governmental	Total Governmental	Internal Service
Fund balance at June 30, 2011	\$ 4,210,697	\$ 2,170,969	\$ 1,492,718	\$ 168,448	\$ 8,042,832	\$ 825,503
Restatement due to change in reporting basis adjustments	(1,123,820)	(133,273)	(311,168)	352,222	(1,216,039)	589,845
Restated fund cash balance at June 30, 2011	<u>\$ 3,086,877</u>	<u>\$ 2,037,696</u>	<u>\$ 1,181,550</u>	<u>\$ 520,670</u>	<u>\$ 6,826,793</u>	<u>\$ 1,415,348</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from a GAAP-basis to the cash basis of accounting had the following effect on net assets at June 30, 2011:

	Governmental Activities
Net assets at June 30, 2011	\$ 20,357,477
Restatement due to change in reporting basis adjustments	(12,115,336)
Restated net cash assets at June 30, 2011	\$ 8,242,141

C. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

The general fund had expenditures (including encumbrances) in excess of appropriations for the fiscal year ended June 30, 2012:

	Appropriations	Expenditures Plus Encumbrances	Excess
General fund	\$ 30,731,817	\$ 31,039,650	\$ 307,833

The Treasurer will review budgetary activity to ensure that expenditures are within amounts appropriated.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$5,544,610. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, \$3,548,975 of the District’s bank balance of \$5,757,873 was exposed to custodial risk as discussed below, while \$2,208,898 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2012, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 243,310	\$ 243,310

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that addresses credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 243,310</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,544,610
Investments	<u>243,310</u>
Total	<u>\$ 5,787,920</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 5,744,252
Private-purpose trust fund	2,800
Agency fund	<u>40,868</u>
Total	<u>\$ 5,787,920</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Advances for the fiscal year ended June 30, 2012, as reported on the fund statements, consist of the following:

<u>Advances in</u>	<u>Advances out</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 269,605</u>

The advances reported on the fund statements are return payments for advances that originated prior to fiscal year 2012.

The primary purpose of the advances is to cover costs in specific funds where expected funds were not received by June 30. New advances are expected to be repaid once the anticipated funds are received.

Interfund advances between governmental funds are eliminated on the government-wide financial statements.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B. Transfers for the fiscal year ended June 30, 2012, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 137,193
Bond retirement	General	<u>92,300</u>
Total		<u>\$ 229,493</u>

During fiscal year 2012, a special cost center within the special trust fund (a nonmajor governmental fund) made a residual equity transfer to the general fund in the amount of \$2,449, which is an allowable transfer in accordance with Ohio Revised Code Section 5705.14(D). The District also made a residual equity transfer from the capital projects fund (a nonmajor governmental fund) to the general fund in the amount of \$134,744, which is an allowable transfer in accordance with Ohio Revised Code Section 5705.13(C).

Transfers are used to move cash receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them and to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 520,499,100	96.03	\$ 507,353,660	95.73
Public utility personal	<u>21,498,390</u>	<u>3.97</u>	<u>22,614,250</u>	<u>4.27</u>
Total	<u>\$ 541,997,490</u>	<u>100.00</u>	<u>\$ 529,967,910</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 32.98		\$ 32.98	

NOTE 7 - PAYMENTS IN LIEU OF TAXES

The District has entered into various tax increment financing agreements with local companies for the purpose of various improvements and developments. To encourage these improvements, the companies were granted an exemption from paying property taxes on the improvements and developments; however, payments in lieu of taxes are made to the District in an amount equal to the property taxes that otherwise would have been due in the current year. These payments are being used to finance the District's operations and will continue through fiscal year 2025. In the governmental fund financial statements, the District recorded payments in lieu of taxes cash receipts of \$407,908 in the general fund during fiscal year 2012.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Refunding bonds - Series 2005					
Current interest bonds	\$ 5,470,000	\$ -	\$ (510,000)	\$ 4,960,000	\$ 570,000
Capital appreciation bonds	255,000	-	-	255,000	-
Accreted interest	209,810	46,526	-	256,336	-
Energy conservation loan - 2008	<u>545,905</u>	<u>-</u>	<u>(77,779)</u>	<u>468,126</u>	<u>79,971</u>
Total long-term bonds and loans	<u>6,480,715</u>	<u>46,526</u>	<u>(587,779)</u>	<u>5,939,462</u>	<u>649,971</u>
Capital lease obligations	<u>46,365</u>	<u>-</u>	<u>(13,572)</u>	<u>32,793</u>	<u>14,698</u>
Total long-term obligations	<u>\$ 6,527,080</u>	<u>\$ 46,526</u>	<u>\$ (601,351)</u>	<u>\$ 5,972,255</u>	<u>\$ 664,669</u>

Capital Lease Obligations: The capital lease obligations are paid from the general fund. See Note 9 for details.

General Obligation Bonds Payable - Series 2005: In February 2005, the District issued \$8,315,000 in general obligation bonds for refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The bonds were issued for a fourteen-year period with final maturity at December 1, 2019, with an interest rate of 2.5% to 9.7%. The refunding issue is comprised of both current interest bonds, par value \$8,060,000, and capital appreciation bonds par value \$255,000. The interest rates on the current interest bonds range from 2.50% - 5.00%. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield to maturity of 3.80%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2013 is \$590,000. Accreted interest totaled \$256,336 as of June 30, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2019. Payments of principal and interest are recorded as disbursements of the bond retirement fund.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Loan - 2008: In February 2008, the District issued \$767,000 general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2018 and an interest rate of 2.75%. Payments of principal and interest are recorded as disbursements of the bond retirement fund.

B. Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Year Ending June 30,	Current Interest			Capital Appreciation		
	Refunding Bonds - Series 2005			Refunding Bonds - Series 2005		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 570,000	\$ 194,610	\$ 764,610	\$ -	\$ -	\$ -
2014	-	185,775	185,775	255,000	335,000	590,000
2015	595,000	175,362	770,362	-	-	-
2016	665,000	153,313	818,313	-	-	-
2017	695,000	129,512	824,512	-	-	-
2018 - 2020	<u>2,435,000</u>	<u>179,125</u>	<u>2,614,125</u>	-	-	-
Total	<u>\$ 4,960,000</u>	<u>\$ 1,017,697</u>	<u>\$ 5,977,697</u>	<u>\$ 255,000</u>	<u>\$ 335,000</u>	<u>\$ 590,000</u>

Fiscal Year Year Ending June 30,	Energy Conservation Loan		
	Principal	Interest	Total
2013	\$ 79,971	\$ 12,329	\$ 92,300
2014	82,185	10,115	92,300
2015	84,460	7,840	92,300
2016	86,786	5,514	92,300
2017	89,202	3,098	92,300
2018	<u>45,522</u>	<u>628</u>	<u>46,150</u>
Total	<u>\$ 468,126</u>	<u>\$ 39,524</u>	<u>\$ 507,650</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$44,164,192 (including available funds of \$1,682,080) and an unvoted debt margin of \$529,968.

NOTE 9 - CAPITAL LEASES

In prior fiscal years, the District entered into capitalized leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service disbursements in the general fund. These disbursements are reported as function disbursements on the budgetary statements.

Principal payments in fiscal year 2012 totaled \$13,572 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30,	Amount
2013	\$ 16,790
2014	12,496
2015	5,504
2016	1,378
Total minimum lease payments	36,168
Less: amount representing interest	(3,375)
Total	\$ 32,793

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Buildings and contents blanket coverage	\$ 5,000	\$ 120,422,538
Inland marine coverage	500	2,322,650
Automobile liability		1,000,000
General liability		
Per occurrence		1,000,000
General aggregate		2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2011.

B. Health Care Self-Insurance Program

Medical/pharmacy and dental insurance is offered to employees through a self-insurance internal service fund. The District contracts with Grossman Consultants for health care consulting services and pays a monthly fee for those services. In addition, the District pays an administrative fee to Mutual Health Services, a third party administrator, who in turn pays the claims for the District. Claims of \$745,653 are due to be paid from the internal service fund at June 30, 2012. The claims liability is based on an estimate supplied by the District's third party administrator, and includes estimates of costs relating to incurred but not reported claims.

Changes in claims due for the current and prior fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$ 589,845	\$ 4,419,695	\$ (4,263,887)	\$ 745,653
2011	472,392	3,776,031	(3,658,578)	589,845

C. Workers' Compensation

The District participated in the SchoolComp Group Retrospective Rating Program (Group Retro) in fiscal year 2012 (See Note 2.A). The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount. The District continues to pay their individual premium; however, the District will have the opportunity to receive retrospective premium adjustments (refunds or assessments) at the end of the three evaluation periods. The group's retrospective premium will be calculated at 12, 24, and 36 months after the end of the policy year. At the end of each period, the Bureau of Workers Compensation (BWC) will take a snap-shot of the incurred claims losses for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, all the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by the BWC. CompManagement, Inc. provides administrative, cost control and actuarial services to the Group Retro program.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$477,885, \$486,106 and \$530,128, respectively; 79.88 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,236,684, \$2,278,221 and \$2,292,593, respectively; 83.89 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$81,362, \$121,721 and \$78,841, respectively; 79.88 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$28,222, \$31,282 and \$31,526, respectively; 79.88 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$172,053, \$175,248 and \$176,353, respectively; 83.89 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 - EMPLOYEE BENEFITS

A. Unpaid Vacation and Sick Leave

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for certificated personnel and 220 days for classified personnel and administrators. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for certificated employees, 55 days for classified employees and 60 days for all school administrators and other administrators.

Unpaid vacation and sick leave is not recorded as a liability on the basic financial statements in accordance with the cash basis of accounting.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of cash receipts, disbursements and change in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a cash disbursement, as opposed to assigned or committed fund cash balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Cash Balance

	<u>General fund</u>
Budget basis	\$ (763,614)
Funds budgeted elsewhere	19,702
Adjustment for encumbrances	67,615
Cash basis	\$ (676,297)

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the uniform school supplies fund and public school support fund.

NOTE 15 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is a party to legal proceedings that management believes would not have a material effect, if any, on the financial condition of the District.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - SET-ASIDES - (Continued)

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	697,583
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying disbursements	-
Excess qualified disbursements from prior years	-
Current year offsets	(1,004,826)
Waiver granted by ODE	-
Prior year offset from debt proceeds	-
Total	<u>\$ (307,243)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

During fiscal year 2005, the District issued \$8,315,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$8,315,000 at June 30, 2012.

NOTE 17 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 68,753
Permanent improvement	105,086
Nonmajor governmental funds	<u>82,192</u>
Total	<u>\$ 256,031</u>

NOTE 18 - SUBSEQUENT EVENT

The District placed an emergency operating levy on the November 6, 2012 ballot for an additional 4.72 mills in property taxes, which did not pass.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 58,699	\$ 58,699
Cash Assistance:			
Breakfast Program	10.553	184,914	184,914
National School Lunch Program	10.555	645,261	645,261
Special Milk Program	10.556	4,778	4,778
Summer Food Service Program for Children	10.559	46,411	46,411
Total Child Nutrition Cluster		<u>940,063</u>	<u>940,063</u>
Total U.S. Department of Agriculture		<u>940,063</u>	<u>940,063</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	972,058	988,852
ARRA - Title I	84.389	87,432	80,121
Total Title I Cluster		<u>1,059,490</u>	<u>1,068,973</u>
Special Education Grants to States	84.027	1,211,947	1,146,951
Special Education - Preschool Grant	84.173	30,957	30,094
ARRA - Special Education Grants to States	84.391	10,421	-
ARRA - Special Education - Preschool Grant	84.392	98,332	67,667
Total Special Education Cluster		<u>1,351,657</u>	<u>1,244,712</u>
Race to the Top - ARRA	84.395	80,782	88,296
Education Jobs Fund	84.410	133,098	89,426
Fund for the Improvement of Education	84.215	156,436	163,223
Education Technology State Grant	84.318	23,720	6,828
Improving Teacher Quality	84.367	224,733	212,867
Total U.S. Department of Education		<u>3,029,916</u>	<u>2,874,325</u>
Total		<u>\$ 3,969,979</u>	<u>\$ 3,814,388</u>

The accompanying notes are an integral part of this schedule.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Fredericktown Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Mount Vernon City School District
Knox County
300 Newark Road
Mount Vernon, Ohio 43050

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2013, wherein we noted the District revised its financial statement presentation to a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

We also noted a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 22, 2013.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 22, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mount Vernon City School District
Knox County
300 Newark Road
Mount Vernon, Ohio 43050

To the Board of Education:

Compliance

We have audited the compliance of Mount Vernon City School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Mount Vernon City School District, Knox County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 22, 2013.

We intend this report solely for the information and use of management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 22, 2013

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #10.553/10.555/10.556/10.559 – Child Nutrition Cluster CFDA #84.367 – Improving Teacher Quality State Grant
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-01

Noncompliance – Annual Financial Report

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38 the School District may be fined for its failure to file the required financial report.

We recommend the District prepare its financial statements in accordance with GAAP.

Officials' Response: The Mount Vernon Board of Education, knowing that the GAAP method is recommended in the requirements of the Ohio Revised code, decided, in the interest of cost containment to approve a contract with Julian & Grube for OCBOA statements to be prepared instead of GAAP for this year. The Board is aware that there will be a comment on our audit to address this matter, along with a financial penalty.

3. FINDINGS FOR FEDERAL AWARDS

None

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-MVCSD-001	Financial statement presentation	Yes	

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MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 19, 2013**